



VIRGINIA LEADING THE WAY

Governor Kaine's Economic Development Strategic Plan



VIRGINIA LEADING THE WAY

Contents



Governor Timothy M. Kaine

Introduction	2
Background	3
Virginia's Economy	3
Employment Growth	3
Income	5
Education and Work Force Quality	6
Housing	7
Transportation Assets	8
International Trade	8
Tourism	10
Agriculture	10
Small, Women, and Minority-Owned Business in Virginia (SWAM)	11
Goals	12
Goals and Strategies	13
Conclusion	22
Plan Development Process	23
Steering Committee	24

Cover: Godspeed Sail, James River, VA - Spring 2006

September 2006

VIRGINIA LEADING THE WAY

Introduction

Virginia began as a business venture. The *Discovery*, *Godspeed* and *Susan Constant*, the three ships that landed at Jamestown, were funded by that day's version of venture capitalists and included people like John Smith who aggressively sought opportunity.

Years after his return to England, Smith wrote extensively about his time in Virginia, describing the opportunity of this new frontier. "Here every man may be master and owner of his own labor and land," Smith wrote. "If he have nothing but his hands, he may set up his trade and by industry quickly grow rich."

We challenge ourselves today to build upon the legacy of opportunity that has defined Virginia's first 400 years as we prepare for a future filled with great risks and even greater opportunities.

We will keep Virginia's economy strong by fostering opportunity and encouraging the entrepreneurial spirit; by ensuring that every hard-working Virginian has access to a good paying job; by seeing that Virginians have the education and that our employers have the skilled employees they need to compete and lead in the 21st century economy; and by wisely managing our natural resources today so that they are an asset for our children tomorrow.

We have assembled this strategic plan to keep Virginia's economy strong. It couples a vision of where we want to go with aggressive goals and honest measures by which we can gauge our progress.

Virginians take great pride in our shared success. Our business climate leads the nation. Its diversity and resiliency is its strength. Even during periods of economic downturn, Virginia has been fortunate to suffer less and recover sooner than most states. Our public schools and system of higher education are ranked among the nation's best. Our individual and business taxes are among the nation's lowest, and Virginia has been designated as one of the top states for legal fairness. A strong education system, an attractive business climate, AAA bond rating, award-winning management, and a stable fiscal environment have all combined to produce consistently strong job growth and low unemployment.

As any good business knows, we cannot become complacent in our success. Too many Virginians lack the education and skills they need to succeed in a changing economy. The decline in manufacturing jobs over the past decade is still felt in too many areas of the state, and persistent poverty and unemployment in our central cities also give cause for concern. Working together, we can use the Commonwealth's strong economic performance to strengthen the foundation of our success and live up to our 400 year legacy of opportunity.

VIRGINIA LEADING THE WAY

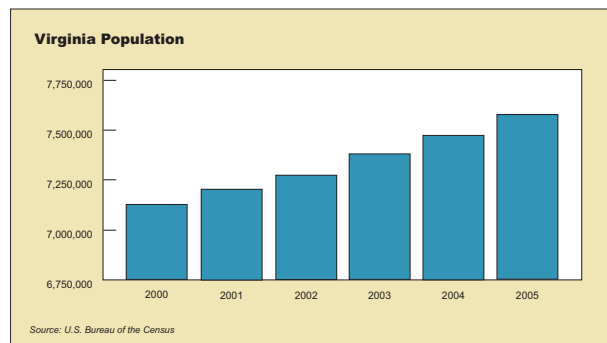
Background Information

In order to chart a course for the future, we must first assess our current environment. The following is a discussion of Virginia's economy and several economic indicators that have been tracked over time.

Virginia's Economy

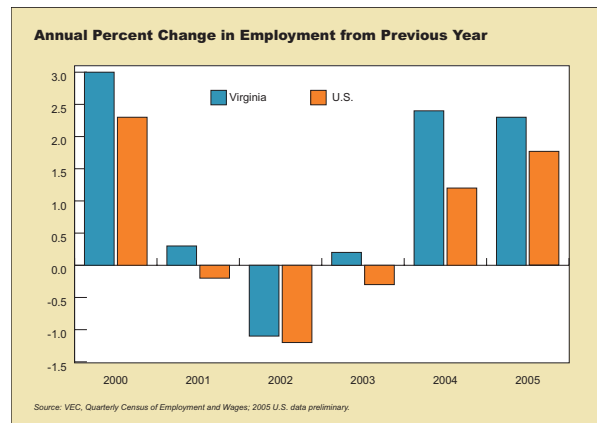
The Virginia economy grew at a solid pace in 2005 and early 2006, continuing the economic recovery of 2003 and 2004. The next few years should see an extension of these general growth trends. Current forecasts project job growth in Virginia will be at least as good as that in the nation and in many industries and areas Virginia job growth should exceed national trends. However, a slowing housing sector and increases in energy costs could offset anticipated growth.

Since the 2000 Census, Virginia has added almost a half million people to its population and may add an additional half million by the end of the decade. Net migration has accounted for about half of the population growth so far this decade.



Employment Growth

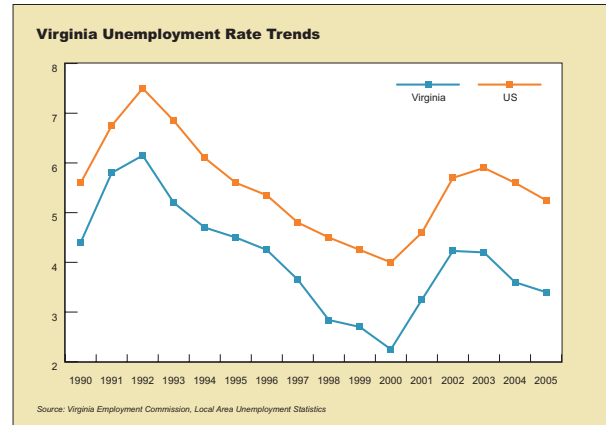
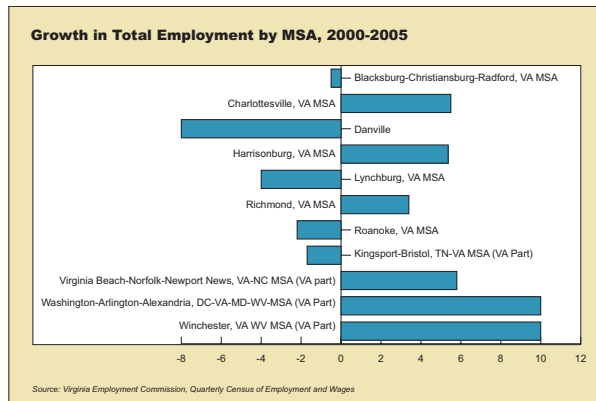
Employment growth is an indicator of economic growth, and in recent years, Virginia's employment growth has exceeded national employment growth. Employment growth in Virginia for 2004 was 2.4% — twice the national rate. Growth slowed only slightly, to 2.3%, in 2005, with a 2.2% growth rate in the first quarter of 2006. Even during the economic downturn from 2001 through 2003, Virginia employment compared favorably with national employment.



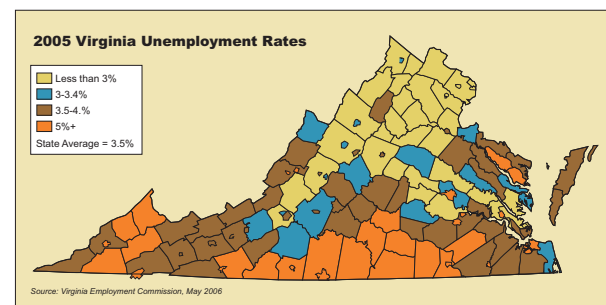
More than 150,000 jobs have been added to Virginia's economy over the past five years. Six of Virginia's metropolitan areas have gained jobs while five others lost jobs. The Washington (112,000) and Winchester (4,600) areas had the strongest growth at about 10%, adding 116,600 jobs to Virginia's economy. The Hampton Roads region was next fastest with 5.4% growth, adding 37,500 jobs. During

VIRGINIA LEADING THE WAY

the same period, however, Virginia's non-metropolitan areas lost 17,000 jobs in aggregate.



Unemployment rates tend to coincide with the business cycle, mirroring economic expansion and contraction. After an eight year decline in unemployment during the 1990's, Virginia experienced unemployment increases from roughly 2.3% in 2000 to about 4.2% in 2002. Virginia unemployment began declining again in 2002, and reached 3.5% for 2005. The state now has one of the lowest unemployment rates in the nation. The May 2006 unemployment rate of 2.9% was a five-year low.

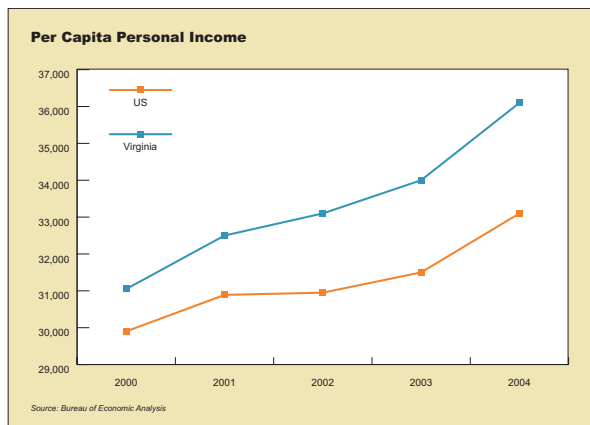


Unemployment rates vary by locality and some of the more distressed areas in Southwest and Southside have unemployment rates double the statewide rate. Northern Virginia, Hampton Roads, and the Shenandoah Valley region have unemployment rates below 3%, and employers in those areas may face tight labor markets.

VIRGINIA LEADING THE WAY

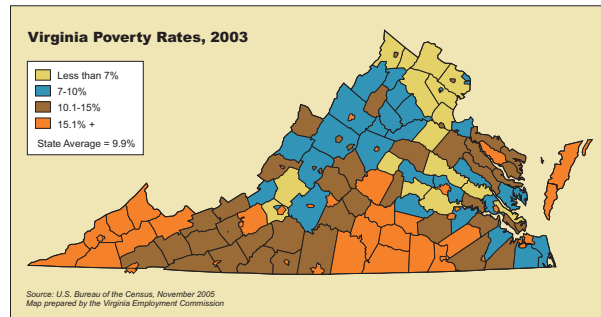
Income

Measures of per capita personal income include salaries and wages, self-employment income, interest income, and Social Security payments. Per capita income in Virginia has consistently exceeded the national average. For the most recent available year, 2004, Virginia surpassed the national per capita income by \$3,110 and the growth rate also exceeded the national rate. Virginia's personal income relative to other states has also increased, rising from 12th place in 2001, to 9th place in 2004.



However, the statewide Virginia per capita personal income does not reflect disparities among the various regions of the state. The Average Weekly Wage (AWW) is another measure of income. The statewide AWW was \$813 for the most recent available full year, 2005. In Northern Virginia, the 2004 AWW was \$1,017. In the rural areas of the state, the AWW ranges from \$508 to \$611.

Changes in the Poverty Rate tell us whether all levels of society are benefiting from increased income. During the 1990's poverty in Virginia had fallen from 9.9% to 9.2% in 2000. The recession coinciding with the 2001 terrorist attacks saw an increase to 10% in 2003. As the economy has improved, the poverty rate dropped to 9.3% in 2004, close to the pre-recession low.



Virginia has the 9th lowest poverty rate among the states, unchanged from 2001. Poverty continues to be higher in Virginia's rural areas, particularly in Southwest and Southside Virginia, than in metropolitan areas. However, U.S. census bureau data shows that poverty in central urban areas is higher than in either rural or non-central metropolitan areas, and is increasing while overall poverty has declined. Clearly, efforts to address poverty must be focused on both rural areas and inner cities.

Education and Workforce Quality

An educated and well-trained workforce is a fundamental requirement for economic development efforts across the Commonwealth.

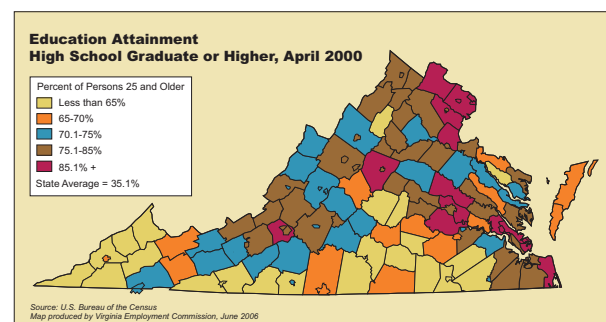
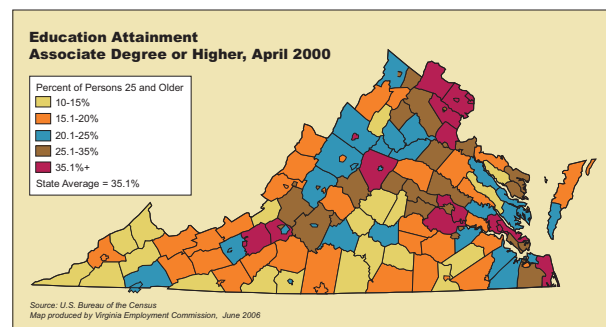
The composition of Virginia's workforce by industry is changing. Although traditional manufacturing is declining, the service sector continues to grow. "Office and Administrative Support" and "Sales and Related" are the two largest occupational categories, and account for 28.1% of the state's work force. The projected fastest growing occupations are computer specialists, persons working in business and financial operations, and workers in health care support occupations.

The skills and education required for entry into the new jobs in Virginia are increasing while jobs for those with less than a high school diploma are dwindling. Declines in traditional textile, apparel, tobacco and furniture manufacturing over the past decade have decreased employment opportunities for lower skilled workers, particularly in rural areas of the state. The rate of high school completion critically affects the ability of regions to attract emerging industries that provide good wages and affects the ability of individuals to fully participate in economic growth.

High school diploma attainment increased in Virginia from 1990 to 2000, from 75.2 percent of the adult population to 82.5 percent. However, among younger Virginians ages 18 to 24, high school attainment has declined in that time period from 79.7 percent to 79.4 percent. Although Virginia

stands 11th in the nation for this measure, too many of our young adults lack a high school diploma. Furthermore, among those who do graduate from high school, too many are unprepared for rigorous post-secondary education or skilled work.

The picture is more positive for higher education. The proportion of Virginia adults with a bachelors degree or higher has improved by five percentage points to 29.5 percent between 1990 and 2000, putting Virginia sixth among states. For the number of adults with graduate and professional degrees, Virginia ranks fifth at 12.4 percent, a 2.5 percent increase from 1990.



Housing

For a business to prosper, it must have available workers within reasonable proximity. This means that workers must be able to live within a commutable distance of the place of employment. In many parts of Virginia, this simple credo has become almost impossible to achieve.

Between 2000 and 2003 the median income in Virginia increased by 10% while the median price of a home increased by 40.4%. The decline in interest rates during this period helped constrain the costs of buying a home, but for many Virginians homeownership is still unaffordable. This dilemma is more pronounced in some regions of the state than in others. Housing prices in Fairfax County have increased 12 times as fast as household incomes over the past five years. The result – many people cannot afford to both live and work in Fairfax County. Entry level workers joining the workforce, even technology workers, nurses, teachers, police officers and many other moderate- and middle-income employees cannot afford housing in the communities where they work.

Housing is considered affordable when no more than 30 percent of income is spent on housing costs (rent/mortgage and utilities). Overall in Virginia, an annual income of \$22,520 (about \$10.83 per hour for a 40 hour work week) is needed to afford the average fair market rent for a two-bedroom apartment – about \$563 per month. As the minimum wage is currently \$5.15 per hour, a worker must make more than twice the minimum wage in order to afford average fair market rent for a two-bedroom apartment.

In the Northern Virginia metropolitan area, the average fair market rent for a two-bedroom apartment is \$1,225 which requires an annual income of \$49,000 (\$23.56 per hour) to be affordable. For workers renting housing in this area, the average wage is \$18.91, making most of the region's housing unaffordable. This scenario can be found in other areas of the Commonwealth as well. In Hampton Roads, the average fair market rent for a two-bedroom apartment is \$811 requiring an annual income of \$32,440 (\$15.50 per hour) to make this affordable. The average wage for workers renting housing is \$10.32, again making most of the region's housing stock unaffordable.

While affordability is a critical issue in some parts of the Commonwealth, the availability of a range of housing options is problematic in other areas. Many rural areas in Virginia see little new housing development of any kind as populations stagnate or decline. This makes recruiting new businesses difficult when prospects recognize that their workforce will be faced with very limited housing options or very long commutes. Companies anticipating relocating management and technical staff are concerned when an area offers a limited range of housing opportunities.

Housing affordability and availability directly and significantly impact businesses' ability to access their needed workforce. If Virginia is going to remain economically competitive, we must be able to ensure that decent, affordable housing is available to workers across the Commonwealth.

Transportation Assets

Nearly all transportation has an economic development component – promoting economic renewal, addressing infrastructure capacity issues created by economic expansion, or providing access to jobs and markets. Virginia has the third largest state maintained highway system in the nation, behind North Carolina and Texas, and is the home to 12 railroads companies, 40 public transportation operators, 67 public use airports and four state-operated ports. Interstates 95 and 81 represent major north-south arteries for passenger and freight movement throughout the eastern US and our rail network connects people and businesses to markets across the country.

The Port of Virginia is a gateway to the world marketplace and a major economic engine for the state. The Port supplies over 52,000 jobs in the Hampton Roads region and port-related businesses such as warehousing, manufacturing, freight forwarding and trucking companies provide over 164,000 jobs throughout the Commonwealth. It has attracted 111 distribution centers and is responsible for \$584 million in annual wages and salaries, \$763 million in business revenue and \$60 million in state and local tax receipts.

Similarly, the economic impact of all Virginia airports totals more than \$14 billion annually. The aviation industry contributes more than 164,000 jobs, \$4.8 billion in wages, and \$10.8 billion in total economic activity. Every \$1 spent at Virginia's public use airports returns an additional \$2.93 in economic activity.

With nearly a third of interstate, primary, and secondary roads considered deficient in terms of capacity, the ability of Virginia's aging transportation infrastructure to meet the needs of a growing and diverse economy is in jeopardy. The situation is similarly bleak for ports, transit, rail, and aviation. Significant dredging and expansion projects are necessary at the Port in order to maintain competitive advantage and ensure that the Port continues to be an economic engine for the state. Without increased funding, transit systems will struggle to maintain the condition of the fleet and transit market share will decline – presenting mobility challenges for many Virginians and further exacerbating highway congestion problems. There are numerous choke points along Virginia's rail lines that challenge the ability of the state's rail system to handle anticipated increases in freight movements and higher speed trains.

International Trade

Virginia's total export of goods reached \$12.22 billion in 2005, an overall growth of 5.03% over 2004. This volume makes Virginia the 25th largest exporting state in the United States in 2005.

Virginia exports include manufactured goods, coal, tobacco, and other agricultural and forestry products. Service exports include education, tourism, engineering, financial, legal, transportation, and marketing industries. Service exports were worth an estimated \$6.5 billion according to the most recent state estimate. The combined total of Virginia's exports of goods and services exceeded \$18 billion in 2005.

VIRGINIA LEADING THE WAY

The impact of trade activity on Virginia's economy goes beyond the value of the state's exports. Exporting goods and services directly and indirectly support 4.4% of all private-sector jobs, and one sixth of all manufacturing jobs in the Commonwealth. The top export goods were industrial and electrical machinery, vehicles, plastic, and paper products. The top markets for Virginia's manufactured products were Canada at \$2.4 billion, Germany at \$1.1 billion, and the United Kingdom at \$683.2 million.

Coal and tobacco have traditionally topped the list of Virginia's export commodities. Coal accounted for \$835.66 million, an increase of 28% over 2005. Unmanufactured tobacco accounted for \$412.6 million in 2006, down 9.6% from 2005. In manufactured products, export of integrated circuits increased 63.5% in 2005, reaching \$657.2 million. By contrast, manufactured tobacco exports (cigarettes, cigars and other tobacco products) declined 62.7%, for a total of \$463.1 million.

Imports are also increasingly important to Virginia's economy. Imported goods landed in Virginia require handling and processing by in-state transportation services, including customs brokers, freight forwarders, stevedores, and truckers. Import distribution centers are being sited throughout Virginia, taking advantage of the Port of Virginia, the Virginia Inland Port, Dulles International Airport, and the Port of Richmond.

The Port of Virginia is one of the state's strongest competitive advantages, as the 4th largest exporting port in the United States. More than 50% of the Port of Virginia's throughput is exported. It is the only

port on the East Coast that can handle increasingly larger vessels and, unlike other U.S. ports, has the option of expansion. The Port's existing 50-foot channels are deeper than any other East Coast port and can accommodate the world's largest ships.

Dulles International Airport is another tremendous international advantage for Virginia, connecting people and freight to global transportation systems. From Dulles International Airport, one can fly non-stop to any continent in the world. Virginians have immediate access to countries across the globe, to learn, to travel, and to do business.

Tourism

Despite the challenges to the Virginia tourism industry following the terrorist attacks, extreme weather and rising gas prices, Virginia's tourism economy has shown significant growth in the past four years. In 2005, Virginia hosted 54.8 million domestic visitors who spent a record \$16.5 billion. Nearly 207,000 Virginians are employed in tourism jobs with a payroll of \$4.1 billion. Tourism is the fifth largest private-sector employer in the Commonwealth.

In 2005, tourism in Virginia generated \$1.2 billion in federal taxes, \$676.3 million in state taxes, and \$474 million in local taxes. Further, on an average day in Virginia, tourism generates \$45.1 million in spending. Tourism expenditures on lodging, food, entertainment and recreation, and general tourism retail, all showed increases over past years.

International visitation continues to be an important component of Virginia's tourism economy. Virginia receives travelers on 417 flights from 37 foreign cities on 25 carriers weekly. Overseas travelers spent \$284 million in 2004 while Canadian travelers spent \$68 million during the same period. Meetings in Virginia – encouraged by Executive Order 14 – generated an economic impact of \$38 million, and resulted in over 200 meetings booked in Virginia.

As Virginia's economy diversifies, rural areas of the state are prime to enter the tourism industry with vigor. New tourism initiatives, such as The Crooked Road: Virginia's Heritage Music Trail, are providing opportunities for these regions to reap tax benefits

by establishing new products for Virginia. By focusing on new tourism business development and workforce readiness including entrepreneurial education, the state can best be assured that tourism's footprint will grow, thus ensuring increased income for the Commonwealth.

Agriculture

Virginia's agricultural and forestry industries contribute more than \$47 billion to Virginia's economy and account for 15% of the total jobs in the Commonwealth. Farmers and foresters own more than 20 million acres of Virginia land and they operate in every locality. The Commonwealth has more than 47,000 farms, with an average size of 181 acres. The industry includes many types of business operations, ranging from small family-owned businesses and service and supply companies, to large corporate agribusinesses. The vast majority of the state's farms (about 90%) are owned and operated by individuals or families. Agriculture and forestry were the basis of Virginia's very formation 400 years ago, and they are still central to the success of the state's rural economy.

After a 17.8% fall in 2004, Virginia's agricultural exports (excluding coal and tobacco) grew by 41.49% to \$565.7 million in 2005. Top export commodities included grains, seeds, cereals, and meats, all of which experienced considerable export growth in 2005. Key consumers of Virginia's agricultural products are Canada, Turkey, China, and Morocco.

Small, Women, and Minority-Owned Businesses in Virginia (SWAM)

In 2005, Virginia had 209,452 business establishments defined as firms with paid employees that register as employers with the Virginia Employment Commission. Of these companies, 54.6% had fewer than five employees. More than 97% of all employers in Virginia had fewer than 50 employees, and provided slightly more than 50% of the state's jobs.

For the Fourth Quarter of Fiscal Year 2006, state agencies reported spending \$123.9 million (10.2%) with small businesses, \$27.8 million (2.29%) with minority-owned firms, and \$24.6 million (2.03%) with woman-owned companies. Evidence published in a 2004 Disparity Study indicated that .44% of the state's procurement dollars were spent with minority-owned vendors, and .83% with women-owned businesses. Although there is much work to be done, the state is achieving improvements in SWAM spending.

In February 2006, when Governor Kaine announced new leadership for the Virginia Department of Minority Business Enterprise, he also signed an Executive Order shifting oversight of the agency to the Secretary of Administration. The Governor is firmly committed to dramatically improving the Commonwealth's performance in procuring goods and services from small businesses and those owned by women and minorities.

GOALS

Goal One: Enhance Virginia's strong business climate to expand economic opportunities and job growth.

Goal Two: Establish state and local programs that identify and meet the needs of existing businesses and facilitate their expansion in Virginia.

Goal Three: Provide a world-class workforce system that is responsive to employer and worker needs and creates a well-trained, well-educated and globally competitive workforce.

Goal Four: Enhance economic development efforts in Virginia's distressed areas to help reduce economic disparity and to promote opportunity for all Virginia's regions.

Goal Five: Emphasize regional cooperation in economic, workforce, and tourism development.

Goal Six: Use Virginia's proximity to the national capital and the strong military presence in the state as a base for further economic growth.

Goal Seven: Support technology, research and development, and other emerging sectors to diversify Virginia's economy and maintain its competitive advantage.

Goal Eight: Strengthen Virginia's competitive position in national and international travel and tourism markets.

Goal Nine: Develop a coordinated international marketing strategy for Virginia including both foreign direct investment and export/import features.

Goals and Strategies

Goal One: Enhance Virginia's strong business climate to expand economic opportunities and job growth.

In August 2006, Virginia placed first among the 50 states in Forbes.com's ranking of the "Best States for Business". Factors considered included the cost of doing business, taxes, regulatory climate, workforce skills and availability, and recent economic growth. Several other recent assessments by organizations and publications as diverse as the U.S. Chamber of Commerce, Newsweek, the Council on State Taxation, Pollina Real Estate, and the Tax Foundation ranked Virginia among the top states in terms of the quality of public high schools, low tax burden, and fair regulatory and legal environment. Virginia is a leader in terms of its strong business climate.

However, the Commonwealth cannot afford to be complacent. Fierce interstate and international economic competition demands that we actively build upon our successes if we are to maintain our leadership. Virginia must continually improve its economic development efforts to maintain its competitive advantage.

Virginians have long recognized that economic development cannot progress without an efficient and effective transportation system, and education from pre-K through higher education, as well as workforce training and re-training. Those issues must figure prominently in any discussion of business climate, alongside taxes, incentives, products liability and corporate responsibility laws, zoning policies, land use planning, and other related areas.

Strategies

- Initiate a long-term transportation finance plan that includes a reliable long-term funding stream, extends beyond maintenance of existing assets and considers alternative modes of transportation. This would include mass transit, improvements to major interstate and freight routes, commuter rail, airports, bicycle and pedestrian, port expansion and all forms of intermodal transport. The transportation finance plan must address both individual concerns (e.g., quality of life, commuting time imposing on family time, difficulty of movement, etc.) and business concerns (e.g., efficient transport of goods and people, attracting employees with a high quality of life, etc.).
- Ensure that every business in the Commonwealth has access to broadband services anywhere and anytime by 2010.
- Decrease government administration transaction time for businesses by 30% for processes such as licenses.
- Evaluate and realign Virginia's incentives to fit the current requirements of growth industries crucial to our economy.
 - Maintain incentives meaningful to high-tech manufacturers.
 - Craft incentives that bring value to the burgeoning service sector, especially vertical growth industries such as biosciences, information technology, global logistics, and homeland security related fields.
 - Focus incentives by regions and industries likely to be attracted there.
 - Honor existing incentive commitments to

VIRGINIA LEADING THE WAY

Virginia companies, particularly those offered as inducement for a location or expansion.

- Implement a stable long-term funding mechanism for increased incentives through marginal revenues from new projects receiving discretionary funding.
- Encourage and retain capital investment, venture capital and angel investment in order to attract and retain growth industries in financial services, insurance, and companies investing heavily in machinery and equipment such as industrial machinery or information technology.
- Implement the Governor's Energy Plan to promote energy availability and reliability at acceptable costs, and focus on renewable energy sources.
- Improve the educational attainment and skills of Virginia's workforce by expanding access to quality early childhood education to promote school readiness, enhance early reading and literacy education, increase the rigor of middle and high school curricula, and support programs to raise high school graduation and post-secondary participation rates.
- Foster available and affordable telecommunications infrastructure, particularly broadband access, to attract new business and accommodate growth by existing businesses. This effort should also promote cellular phone signal access in rural areas of Virginia. This could be accomplished through public-private partnerships for underserved areas of the Commonwealth. Providing broadband access to underserved areas would also benefit schools and colleges in those areas.
- Adopt a diversified approach to economic development through entrepreneurship, artisanship, small business development, tourism and emerging technologies.
- Create incentives for the development and preservation of workforce housing to ensure that workers can live in the communities in which they work.

Goal Two: Establish state and local programs that identify and meet the needs of existing businesses and facilitate their expansion in Virginia.

Virginia's public sector must pay close attention to the needs and demands on our business community, as these firms provide the jobs and payroll that support Virginia's robust economy. Over 60% of Virginia's annual revenues are generated through personal and corporate state income taxes. Investments made by the private sector in real and personal property are the basis for significant tax revenues to Virginia's localities as well. Additionally, during the last 5 years, 76% of the jobs and 69% of the investment announced in Virginia have come from our existing business base. It is imperative in today's competitive, ever-changing global economy that Virginia establish outreach and assistance programs that address the needs of our existing businesses.

Strategies

- Work with all Virginia localities and regional groups to establish a Business Retention Program through which all major employers are

called on at least annually by professional staff who can appropriately follow up on any needs that are identified and deemed to be within the purview of government to address.

- Establish a statewide system or technology platform that collects consistent strategic information on business trends and needs from business retention calls made by local and regional organizations. This information can then be shared statewide to guide the development of goals, policies, and action plans of economic development organizations at all levels.
- Increase procurement from small businesses to 40% of state purchases and develop capital financing options for small businesses and women- and minority women-owned businesses pursuant to Governor Kaine's Executive Orders 10 and 33 (2006).
- Establish a "Virginia CEO Advisory Council" that would meet twice annually with the Governor and key legislative leaders to offer advice on policy issues important to business. This Council would be created under the umbrella of the Virginia Economic Development Partnership which would ensure that the membership of the Council would be balanced from a geographic and business sector perspective. Members of the Council would be drawn from Virginia's largest private sector employers.
- Enhance the economic value and long-term viability of Virginia's agricultural and forestry industries by promoting beneficial diversification, expanding market opportunities for both traditional and new value-added products, and focusing additional resources on farm land

preservation efforts.

- Promote the development of high value, value-added or specialty agribusiness firms and products, and attract in-state processing industries.
- Develop higher value, niche and direct market opportunities for agricultural and forestry products.
- Expand domestic and international market opportunities for Virginia's agricultural and forestry products, including encouraging state procurement of Virginia grown products.
- Foster and support the production, promotion, marketing and research of agricultural and forestry based renewable energy.
- Establish, as an integral component of statewide preservation efforts, aggressive goals for the conservation of viable farm and forest lands.
- Provide additional assistance to farmers and localities to support successful farm transitions.
- Build the physical infrastructure and human capital to ensure Virginia's first place standing as the advanced manufacturing location of choice.

Goal Three: Provide a world-class workforce system that is responsive to employer and worker needs and creates a well-trained, well-educated and globally competitive workforce.

Economic development prospects focus on states and regions that can provide the workforce that they need. Virginia must strive to provide the quantity and quality of workforce that modern employers now require. Moreover, as lower skilled occupations continue to decline, Virginians will increasingly find

that they cannot become self-sufficient without post-secondary education or training. Virginia employers need skilled workers with the capacity to adapt to the demands of a changing global economy. In addition to specific job-related skills, workforce development efforts need to focus on developing “soft skills” such as customer service, self-direction, problem-solving, and cooperative work habits.

The following recommendations are strategic approaches that will be addressed in more detail in the Governor’s Workforce Development Strategic Plan.

Strategies

- Champion a quality statewide education system from pre-Kindergarten through post-graduate programs, including affordable access to post-secondary education for all Virginians.
- Reform the local Workforce Investment Boards (WIBs) and local infrastructure to improve the efficiency and effectiveness of the Virginia Workforce Network, sustain business involvement and ensure that workforce development and training are responsive to labor markets, commuting patterns, economic cluster data, educational attainment data, job projection data, existing higher education infrastructure and other strategic economic demands.
- Focus the use of more corporate incentives more on workforce training, retraining, and education, including increasing opportunities for apprenticeship, co-operative education, and internships to develop skills required by businesses now and in the future.
- Increase the proportion of 18- to 24- year olds with a high school diploma or equivalent from 87% (2002-2004 average) to 92% by 2010.
- Increase the proportion of 18- to 24-year olds enrolled in college from 34% (2002-2004 average) to 39% by 2010.
- Increase the proportion of the population aged 25 to 65 with a bachelor’s degree or higher from 35% (2002-2004 average) to 37% by 2010.
- Establish tuition reimbursement or loan forgiveness for students in science, technology, engineering, mathematics, nursing, education, and other critical fields, provided the student agrees to work in an area in Virginia in need of those skills for a required period.
- Align workforce development and training activities with state, local and regional economic development goals and objectives.
- Promote parity in skills development in areas of the state where individual skill levels do not meet economic demand.
- Build collaboration across secretariats, regions, and agencies to ensure a coordinated approach and eliminate overlap and duplication of effort.

Goal Four: Enhance economic development efforts in Virginia’s distressed areas to help reduce economic disparity and to promote opportunity for all Virginia’s regions.

Despite Virginia’s generally high level of economic prosperity, the regional diversity that makes Virginia

so culturally rich also manifests itself in wide economic disparities across the Commonwealth. While some regions may be facing workforce shortages, other areas continue to struggle with high unemployment. In 2004, Virginia's overall personal income was ranked the ninth highest in the nation but many rural areas and older cities have poverty levels more than twice the state rate. These variations are not recent phenomena. Changes in the global economy, the decline of traditional industries such as agriculture and manufacturing, limited access to the infrastructure necessary to support 21st century business demands, and the need for rapidly changing workforce skills are all reasons that some regions do not share equally in Virginia's economic success.

Economic disparities also impact the quality of life in regions across the state. Areas that are medically underserved, have limited affordable housing stock for incoming workforce, and have lower educational attainment levels do not fare well in the highly competitive process of attracting new businesses. Addressing the conditions that consign parts of the state to continued economic distress will take more than economic development as usual. Solutions are needed that go beyond recruitment and incentive packages and address the underlying issues that limit the economic opportunities for too many Virginians.

Strategies

- Focus state economic development activities and incentives on regions with the greatest need, including urban centers and rural areas, to help reduce the competitive disadvantage that such areas face in attracting new jobs and investment.

- Increase the number of companies in strategic business sectors visiting Virginia's distressed communities by 5% per year.
- Support infrastructure development in distressed areas and cluster state investments in roads, water, sewer and telecommunications in areas identified for development.
- Support the redevelopment of central cities and older suburbs in accordance with the Governor's Urban Development Strategy. Land use initiatives, transportation resources and redevelopment incentives can help restore economic vitality and promote efficient reuse of such areas.
- Develop regionally tailored workforce development plans that are based on an assessment of existing workforce deficiencies and on projected future industry needs.

Goal Five: Emphasize regional cooperation in economic, workforce, and tourism development.

Political boundaries and economic boundaries don't always match up. States, cities, and counties are not true economic units. Regions are the economic units in a global economy. By targeting our efforts toward building regional strengths, we can help create the most jobs for the state's economic development dollar.

Strategies

- Formulate specific regional economic growth goals based on the Council on Virginia's Future's regional data by January 1, 2008.
- Restore funding to the Regional Competitiveness

Program to foster economic problem-solving across political boundaries.

- Institute incentives in state funding formulas, as the state currently does in regional jail construction, for local governments to collaborate meaningfully on providing services.
- Remove statutory barriers to revenue sharing among localities to encourage the joint regional development of infrastructure, sites, and the sharing of resulting increased revenues across political boundaries.
- Provide meaningful incentives to areas that address economic development needs and issues on a regional, rather than local, basis.
- Restore funding for regional partnerships for tourism marketing and development to encourage regional efforts.
- Encourage Local Planning District Commissions, the VEDP and Community Colleges to perform regional gap analysis to assess Virginia's regional strengths and weaknesses and to construct effective business growth strategies that align with the state's focus areas.

Goal Six: Use Virginia's proximity to the national capital and the strong military presence in the state as a base for further economic growth.

The Department of Defense contributes approximately \$40 billion in direct investment to Virginia's economy each year. Only California, with her enormous size and population, attracts more investment from the military and other defense-related federal

agencies. We must ensure that the federal funding that supports our military bases and personnel and the federal contracts that drive private sector employment and investment are not treated only as assets to be maintained. They also provide tremendous opportunities for economic growth throughout the Commonwealth.

Strategies

- Prepare communities affected by the Base Realignment And Closure Commission (BRAC) to leverage and respond to the Commission's decisions
 - Coordinate state, federal, and local partners to respond appropriately to transportation challenges created by the BRAC process, most notably at Ft. Belvoir in Fairfax County.
 - Ensure adequate funding to help affected communities address other key issues resulting from the BRAC decisions (housing, schools, day care centers, office space, etc.).
 - Develop and implement a marketing and retention strategy for federal and military installations.
- Capture a higher percentage of federal spending
 - Improve the annual funding available to the Center for Innovative Technology (CIT) to accommodate growth in the Growth Acceleration Program (GAP). Use CIT more effectively to better match Virginia companies to federal opportunities.
 - Increase the total amount of Department of Defense related contracts by 5%, or \$1.15 billion, by 2010.
 - Lead collaboration between economic development authorities, the private sector, and

Virginia's colleges and universities to increase research and development funding and to enhance the growth of businesses evolving from such research.

- Foster a close working relationship between the Virginia Economic Development Partnership and the Virginia National Defense Industrial Authority to maintain and expand the Department of Defense assets and employment in Virginia.

Goal Seven: Support technology, research and development, and other emerging sectors to diversify Virginia's economy and maintain its competitive advantage.

Virginia is in the midst of a transition from a manufacturing economy into a services and knowledge-based economy, and has captured a dominant market share in the information technology sector. This transition has not been distributed equally across Virginia's regions, as legacy manufacturing operations have remained in rural locations in Virginia, and the technology sector growth has disproportionately occurred in Virginia's Golden Crescent. As this transition continues, Virginia will need to exploit opportunities for innovation and research-based commercial activity in key emerging markets. These markets will drive the economy of the future to a large extent, providing future employment opportunities for all regions across the Commonwealth.

Virginia has developed some strengths in a variety of areas that encompass life sciences, nanotechnology and advanced materials science, pharmaceuticals

and other technologically advanced business sectors (emerging sectors). Virginia has some inherent advantages owing to a significant presence in some sectors, advanced materials and pharmaceuticals for example. But there are significant gaps in business infrastructure that must be addressed if Virginia is to facilitate emerging business sectors as a major portion of our economy. These areas and others need to be critically reviewed in a national context to examine the most fertile areas for public and private sector focus.

Virginia has taken a cautious approach to developing grant programs and other economic development incentives. Current state incentive programs focus on worker training, performance-based grants, site infrastructure improvements, job creation, and encouraging investment in economically distressed areas. The Commonwealth has not focused as much on programs that help companies access capital at critical business development stages or programs that attract private capital.

While continuing to build on our current competitive strengths, Virginia needs to dedicate a continuing resource stream to advance and support an array of emerging market areas that align with our unique corporate, state, and federal assets.

Strategies

- Focus on the need to improve Virginia's competitive posture in emerging markets (technology, research and development, etc.) and build a sustained commitment through supportive legislation and funding.

VIRGINIA LEADING THE WAY

By 2009, establish an entrepreneurial culture and infrastructure which results in Virginia ranking first in new technology startup companies and knowledge jobs created, supported by specific programs that incent major new equity investment at the seed and early stages; attract new individual, corporate and institutional investors into Virginia's emerging technologies; and focus Virginia's research & development assets around collaborative outcomes.

- Commission a comprehensive, independent assessment of Virginia's private sector, state, and federal assets to determine which of these provide unique competitive advantages that serve as a foundation for growth.
 - Concentrate on potential emerging market opportunities that seem to align well with Virginia's assets, and which form a platform for continued investment, employment, and coordination among institutions in order to achieve prominence in those identified markets.
 - Produce a set of goals, deliverables and appropriate measures for determining success.
 - Identify other states that have competitive standing in these same market areas, and assess their programs and initiatives that have a bearing on our potential for success.
- Identify opportunities to more fully connect complementary research programs and initiatives among and between our research universities to ultimately advance private sector investment and employment within Virginia.
- Design and implement a measurable outreach program to identify and nurture synergy opportunities for R&D alliances between Virginia's federally funded research units, Virginia-based corporate research operations, and Virginia's research universities.
- Initiate necessary incentives, financing tools, and resources to support the financial growth cycle of companies in these emerging markets.
- Promote early stage/venture capital financing in Virginia and establish a significant fund that focuses on investing in Virginia-based venture companies in seed/early stage life science and other emerging technology sectors.
- Launch a statewide benchmarking registry of qualified Angel investors, a prototype educational training program for new Angel investors across the Commonwealth, and formation assistance programs to launch new regional Angel Investors groups.
- Expand the burgeoning modeling and simulation sector in Hampton Roads.
- Support development of facilities for advanced technology start-ups, including wet-lab space for the biotechnology industry.

Goal Eight: Strengthen Virginia's competitive position in national and international travel and tourism markets.

Virginia has long been a top travel destination, thanks to the Commonwealth's diverse offering of attractions and amenities that stretch from the mountains to the sea. As the Commonwealth – as well as America – commemorates its 400th anniversary in Jamestown in 2007, we must provide the infrastructure and educated workforce that will enable Virginia to increase market share and elevate our position as an international travel destination.

Strategies

- Build upon the well-recognized “Virginia is for Lovers” campaign with special focus on emerging and niche markets, including international markets.
- Create a greater public awareness of the importance of tourism investment to assure support for the tourism industry, particularly in the areas of tourism funding and workforce preparedness.
- Increase focus upon community tourism development, tourism planning and capital access.
- Increase the economic impact of tourism in Virginia from \$16.5 billion per year (2005) to \$18.5 billion by 2010.
- Enhance state marketing resources and continue to develop mechanisms for sustaining and leveraging those resources with private sector and tourism industry partners.
- Increase the sustainability of Virginia’s tourism economy through stewardship of Virginia’s natural resources and unique cultural character.
- Ensure that the Virginia Film Office remains competitive in recruiting national film industry productions through continued incentive funding and the pursuit of creative marketing opportunities.
- Reassess the funding mechanism for state and locally owned Virginia Welcome Centers and Rest Areas, and develop alternative funding sources if necessary. Improve the condition and cleanliness of these facilities.

Goal Nine: Develop a coordinated international marketing strategy for Virginia including both foreign direct investment and export/import features.

In addition to encouraging increased exports of Virginia goods and services, Virginia needs to foster increased foreign investment in facilities in the Commonwealth. The three state entities that deal with international business – the Virginia Economic Development Partnership, the Virginia Department of Agriculture and Consumer Services, and the Virginia Port Authority – should coordinate efforts in international marketing to achieve greater economies and results. Virginia must also create a coordinated international marketing message that communicates Virginia’s distinct advantages as a place to establish operations. This will lead to more efficient and effective overseas representation, presence, marketing, and promotion.

Strategies

- Develop and implement a comprehensive strategy to recruit foreign investment from emerging markets, including China and India.
- Increase Virginia exports by 7% (\$855 million), by 2010.
- Increase foreign direct investment in Virginia from an average 2,300 jobs and \$270 million annually to 3,000 jobs and \$300 million annually.
- Assist foreign companies establishing Virginia and US markets (import assistance) in exchange for similar assistance for Virginia companies in the other country.

- Implement economies in international recruitment by coordinating and leveraging assets of local and regional economic development organizations currently engaged overseas for optimal results.
- Make Virginia the port of choice on the east coast of the United States through enhanced and coordinated marketing in conjunction with private investment and expansion at the Port of Virginia.
- Increase educational focus on foreign language and international skills in pre-K-12 education.
- Encourage intellectual exchange through international students and scholars.
- Acquire the Virginia Conference on World Trade from the Virginia Chamber of Commerce to increase its impact and effectiveness. Create an awards program at the Virginia Conference on World Trade that recognizes excellence and growth among Virginia exporters.

Conclusion

Virginia leads the nation in building and maintaining an excellent business climate. In most respects, our economy is strong and resilient. Even during periods of national economic downturn, Virginia has been fortunate to suffer less and recover sooner than most states. Our public schools and system of higher education are ranked among the nation's best. Our individual and business taxes are among the nation's lowest. A strong education system, an attractive business climate, award-winning management, and a stable fiscal environment have all combined to produce consistently strong job growth and low unemployment.

Despite this success, there are key areas where Virginia must improve if we are to compete in the global economy. This plan, with its broad goals and clearly outlined strategies, provides a roadmap for future economic growth and success in the Commonwealth. Working together, we can use our strong economic performance to strengthen the foundation of our success and to expand the benefits of prosperity to all regions of the state, ensuring that Virginia continues to lead the way.

Appendix A: Plan Development Process

Each Governor must establish an Economic Development Strategic Plan during the first year in office, pursuant to §2.2-205 of the Code of Virginia. Governor Kaine initiated the process of developing the strategic plan in early 2006 by issuing Executive Order 24, establishing a steering committee to guide the process. He appointed 54 Steering Committee members, representing a broad cross section of citizens with expertise and interest in Virginia's economic and community development. The Governor appointed Patrick O. Gottschalk, Secretary of Commerce and Trade, the chairman of the Steering Committee. Representatives of the Governor's Office, four Cabinet Secretaries and nine state agencies provided staff support.

The Governor is also charged by Chapters 696 and 751 of the 2006 Acts of Assembly to "develop a statewide strategic plan addressing the need for reforms in workforce policy, including the implementation of workforce development and training initiatives and policies." Recognizing the inextricably close relationship between Economic Development and Workforce Development, Governor Kaine directed his Senior Advisor for Workforce Development, Daniel LeBlanc, and the Secretary of Commerce and Trade to collaborate in developing the two strategic plans. Although this Economic Development Strategic Plan contains recommendations for workforce development, the Governor's Workforce Development Strategic Plan will have a more in-depth focus and will address several new statutory requirements.

The Economic Development Steering Committee first met on July 11, 2006 in Richmond. Members received a briefing on the current status and anticipated trends in Virginia's economy. They also reviewed the prior Administration's economic development strategic plan, discussed the most salient issues, and the Commonwealth's economic development strengths

and weaknesses. Upon further discussion, the Steering Committee agreed on the format and work groups for a series of statewide public meetings.

The Steering Committee held six public meetings between July and August 2006 to solicit public comments and suggestions. The meetings were held in Annandale, Weyers Cave, Abingdon, Danville, Chester, and Norfolk, and drew more than 850 participants. Steering Committee members attended the public meetings to participate in the process and assess regional differences and similarities.

Participants at each meeting viewed a recorded message from Governor Kaine and then received a presentation about Virginia's current economic landscape. Participants then chose one of eight concurrent work sessions to discuss economic and workforce development issues in greater detail and to make recommendations. During the work sessions, participants identified strengths and challenges related to the topic of the group, suggested strategies to address the challenges in that area, and then prioritized their recommendations. Staff to the Steering Committee recorded the public input from each work group.

After the public meetings, staff compiled the public meeting input as well as comments submitted in writing and by telephone. They combined similar recommendations and organized them by topic for consideration by the Steering Committee. The Steering Committee met again on August 14, 2006 to review, discuss and prioritize the public recommendations and to add their own recommendations. This work was conducted in concurrent sessions that mirrored the topics of the public meetings. The Steering Committee met last on September 6, 2006 to consider a draft strategic plan, and their work provided the foundation for the Governor's Economic Development Strategic Plan.

VIRGINIA LEADING THE WAY

Appendix B: Steering Committee

The Honorable Patrick O. Gottschalk, Secretary of Commerce and Trade, Chair	John Knapp, Charlottesville, Senior Economist, UVA Cooper Center
The Honorable Viola Baskerville, Secretary of Administration	Gary Larrowe, Hillsville, County Administrator, Carroll County
The Honorable Don Beyer, Falls Church, President Don Beyer Volvo	The Honorable Daniel LeBlanc, Senior Advisor to the Governor for Workforce Development
The Honorable Robert Bloxom, Secretary of Agriculture	Martin Lightsey, Staunton, Chairman, Specialty Blades, Inc.
The Honorable Preston Bryant, Secretary of Natural Resources	Robert Matthias, Virginia Beach, Assistant City Manager, Virginia Beach
Ronald Bunch, Danville, Director, Danville Office of Economic Development	Wes McAden, Lacrosse, President, Virginia Quilting
Lay Nam Chang, Blacksburg, Dean, College of Science, Virginia Tech	Martha Moore, Richmond, Director of Governmental Relations, Virginia Farm Bureau
The Honorable Aneesh Chopra, Secretary of Technology	Donna Morea, Fairfax, President, CGI-AMS
Marjorie M. Connelly, Richmond, COO and President of Business Services, Wachovia Securities	The Honorable Dr. Thomas Morris, Secretary of Education
E. Will Davis, Jr., Chesterfield, President, Virginia Economic Developers Association	David Morrisette, Meadows of Dan, Chateau Morrisette Winery
Glenn Davis, Richmond, President and CEO, BranCore Technologies	Kent Murphy, Blacksburg, President and CEO, Luna Technologies
Toa Do, Falls Church, Center for Business Planning and Development	Ike Prillaman, Virginia Beach, Vice President, Norfolk Southern Corp., retired
Glenn Dubois, Chancellor, Virginia Community College System	Sanjay Puri, Chantilly, CEO, Optimos
Jack Ezell, Hampton, CEO, Zel Technologies	The Honorable Jackson E. Reasor, Glen Allen, CEO, Old Dominion Electric Cooperative
Alton Glass, Newport News, President, Local 8888	Jim Ricketts, Virginia Beach, Director, Virginia Beach Convention and Visitors Bureau
Richard A. Gonzalez, Springfield, President, Ethnet: The Ethnic Network	Dr. Linwood Rose, Harrisonburg, President, James Madison University
Rick Harrell, South Boston, Owner, R.O. Harrell, Inc.	Knox Singleton, Falls Church, President and CEO, Inova Health System
Mark Herzog, Richmond, Executive Director, Virginia Biotechnology Association	Oliver Singleton, Richmond, President, Metropolitan Business League
Jim Hicks, Lynchburg, Areva NP, Inc.	Steve Smith, Abingdon, CEO, K-VA-T Food Stores
Terry Holzheimer, Arlington, Director, Arlington Economic Development	Phil Sparks, Roanoke, Executive Director, Roanoke Valley Economic Development Partnership
The Honorable Pierce Homer, Secretary of Transportation	The Honorable Marilyn Tavenner, Secretary of Health and Human Resources
C. Jones Hooks, Virginia Beach, President, Hampton Roads Economic Development Alliance	Regina V.K. Williams, City Manager, City of Norfolk
C. Knox Hubbard, Richmond, Senior VP, Global Trade Services, Bank of America	Blair Williamson, President, S.L. Williamson Company, Inc.
Donna Pugh Johnson, Richmond, Virginia Agribusiness Council	Greg Wingfield, President and CEO, Greater Richmond Partnership
Tommy Kellum, Weems, President, Kellum Seafood	Adam Wright, CEO, EMI Imaging, Inc.
Hugh Keogh, Richmond, President and CEO, Virginia Chamber of Commerce	Charles Yates, Executive Director, Virginia Coalfields Economic Development Auth.
Temple Kessinger, Covington, President, Virginia Association of Planning District Commissions	Michel Zajur, President and CEO, Virginia Hispanic Chamber of Commerce